

## Luxembourg

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*Table 1.* Cabinet composition of Juncker-Asselborn II (or Juncker IV)

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For the composition of Juncker-Asselborn II (or Juncker IV) on 1 January 2010, see Dumont et al. (2010: 1078–1079).

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## Institutional reforms

At the beginning of the year, Prime Minister Jean-Claude Juncker was re-elected as President of the Eurogroup for a term of two-and-a-half years, as foreseen in the Lisbon Treaty that entered into force on 1 December 2009. Since 1 January 2005, the head of the Luxembourg government directs the work of the monthly meeting of finance ministers of the 16 Member States of the euro area.

In October, a new law on the Chamber of Commerce was adopted. The new Act specified that the Chamber is a public institution. Next to its consultative role in the legislative and regulatory process, it specifies its mission of assistance and advice for national citizens and companies. This newly defined task includes the promotion of entrepreneurship and business creation, assistance and advice to businesses in a large number of areas, and support for citizens and companies for accessing foreign markets. The new law also defines the distribution of powers between its different bodies and modifies the election rules of its members. Electoral groups are now six instead of the 24 previously.

Also in October, the Constitutional Court of Luxembourg condemned the decision taken in 2007 by the Government to transfer the former Chief of Defence, Colonel Nico Ries, to another position within the Ministry of Foreign Affairs and Immigration. The court recognised that the Government did not comply with the usual administrative procedures.

The same month, the Chamber of Deputies modified its internal regulations on the control of European policies following the entry into force of the Lisbon Treaty. Cooperation between the Chamber of Deputies and the Government on this subject is now managed by a protocol. In addition to the control of subsidiarity and proportionality, the Luxembourgish parliament,

similarly to the Danish parliament, may constrain the Government under certain conditions to adopt its positions in the various institutions of the European Union (European Council, Council of Ministers). Moreover, the right to be informed was reinforced.

In November 2010, it was decided to hold a new census of the population, with the previous one dating back to 2001. According to initial estimates, Luxembourg has more than 500,000 inhabitants for the first time; 44 per cent of the population is foreign and among them 85 per cent come from a Member State of European Union. The population census is combined with a census of households, housing and residential buildings in all the municipalities. This last aspect is already strongly contested by the consumers' association and the league of private owners.

### **Political parties**

In January 2010, the Court of Auditors published its first report on the public accounts of the political parties in application of the law passed in December 2007. The report did not identify any major problems with the 2008 accounts, but required the establishment of a uniform structure of accounting aimed at simplifying comparison between the political parties and ensuring greater respect of the law.

The same month, Lydie Lorang, a lawyer specialising in children's rights, close to the Christian Social Party (CSV), was appointed as new Member of the Council of State (the House of Judicial Review) by the Chamber of Deputies. She replaces Alain Meyer, former President of the Council of State, who resigned in November 2009 for personal reasons.

In March 2010, the Democratic Reform Party (ADR) held its first congress after its historic decline at the last general elections in 2009 and the loss of one seat in parliament (the seat of its President Robert Mehlen). Despite a deplorable financial situation and its political failure, the national directorate of the party was re-elected. At the European level, the party allied with the British Conservatives, and described itself as 'a populist party that is neither right nor left'.

In April 2010, at the extra-ordinary national congress of the Luxembourg Socialist Workers Party (LSAP), the young MP Vera Spautz strongly challenged the positions taken by the Socialist members of the Government and the leadership of the party during the tripartite negotiations on the future of the automatic indexation of salaries. Minister of Labour Nicolas Schmit had previously broken 'Government solidarity' on this same issue and on a possible reduction in family allowances as defended by the Christian Social

Minister of Finance, Luc Frieden. He publically declared that this reform did not receive the approval of a majority of Government members. In the domain of integration, the party created a federation for foreign residents wishing to participate in Luxembourg politics. It is the third among the large parties in Luxembourg to do so after the Liberals and the CSV.

In June 2010, at its ordinary national Congress, the Democratic Party (DP) carried out a major revamp of its leadership. While the president of the party, Claude Meisch, remained in place, a new first vice-president was elected (a film producer, Guy Daledein) as well as a new general secretary (the Deputy-Mayor of Feulen, Fernand Estgen). The latter replaced the lawyer, Georges Gudenburg, who was considered responsible for the inefficient campaign during the last general election in June 2009.

In September 2010, the first congress of the Pirate Party was held and Sven Clément, a student in computer sciences, was elected president. The party, founded in 2009 after the last parliamentary elections, is in favour of the respect of the private sphere by the state and wants to put online all state documents in order to increase democratic control. The party aims to gain one seat in the next national elections of 2014.

In November 2010, David Wagner, journalist at *Woxx* (a weekly magazine close to the Greens) became the spokesperson for *déi Lénk* (the Left). The spokesperson can be regarded as the president of the party. He has sealed a cooperation agreement with Jean-Luc Mélenchon, chairman of the Party of the Left in France during its Congress of Le Mans. This agreement focuses particularly on social and economic assistance to French cross-border workers in Luxembourg.

## Issues in national politics

### *Social and economic situation*

The data of the statistical institute of Luxembourg indicate that after a declining period in 2009, Luxembourg's economy grew again in 2010 (2.7 per cent). Yet, despite this positive result, the economy at the end of 2010 is still 3.4 per cent short of its 2007 level. In terms of economic performance, the crisis would have cost €4.3 billion to business in 2009 and 2010. The unemployment rate rose from 2.4 per cent in June 2004 to 6.1 per cent in June 2010. At the end of the year, with all corrections (including, for example, the unemployment of cross border workers), the Economic Committee, which is the institution that evaluates every trimester the economic and social performance in Luxembourg, estimated the actual rate of unemployment at 7.5 per cent. In addition, inflation in

2010 was 2.7 per cent, well above that of Germany, France and the Netherlands (below 2 per cent for those countries). In his annual speech on the state of the nation, the Prime Minister said that this differential was not without consequences for the competitiveness of companies in Luxembourg. In this same speech, he underlined that differentials in the evolution of wages are another factor crippling the Luxembourgish economy in 2010. According to the Government and employers association, Luxembourg did not follow the growth of its neighbours in the last decade due to the automatic indexation of wages. Between 1999 and 2009, wages increased by 12.9 per cent in Germany, 34.3 per cent in Belgium, 34.4 per cent in France and 43.1 per cent in Luxembourg.

Public finances also witnessed a serious deterioration in 2010. In 2008, the government surplus – state, local and Social Security combined – was still at 2.5 per cent of gross domestic product (GDP). A year later, in 2009, this surplus had turned into a deficit of 0.7 per cent (a difference of 3.2 percentage points). In spring 2010, the European Commission estimated that the budget deficit would reach 3.5 per cent and, in 2011, 3.9 per cent (a difference of 6.4 percentage points over 2008). This decrease in GDP has automatically increased the amount of the public debt from €5.6 billion in 2009 to €7.2 billion in 2010. The public debt is now 18.3 per cent of GDP. Even if it remains one of the lowest debts of the EU, the Commission has threatened – for the first time since the entry into force of the Maastricht Treaty – to launch an excessive budget deficit procedure against Luxembourg.

In May 2010, the Organisation for Economic Cooperation and Development (OECD) report *Economic Survey of Luxembourg 2010* on the economic situation and policies of Luxembourg pressed for social and economic reforms. Its proposed solutions were amply commented upon in the national media and debated amongst civil society and political representatives. The OECD has requested that the large fiscal stimulus device introduced in 2008 and 2009 should be deleted. According to the institution of economic cooperation, the structural deficit of public finances should be addressed first, given the vulnerability of the Luxembourg economy to globalisation and the long-term challenge posed by the aging of the population. The main economic challenge lies in the extent of future pension costs, the generosity of social benefits and the growing number of cross-border workers who will reach retirement age. A reform of the pension system, combined with a budgetary consolidation, is therefore necessary ‘to put public finances on a sustainable path’.

In this difficult and tense context that lasted throughout the spring, the ‘Tripartite’ formed by the Government, employers and unions had to look for common solutions for improving employment, economic competitiveness and public finances. The Government’s goal was to achieve, in terms of public finances, a balanced budget in 2014. After five highly explosive meetings in

April 2010, the Government and social partners failed to reach an agreement for the first time since 1985 (latest restructuring plan for the Luxembourg steel industry)! The main point of contention was the continuation or discontinuation of automatic indexation of wages. The Government had proposed two options to adapt the system of wage indexation that were rejected by the union delegations. The first proposal was to remove petroleum products from the basket of products included for calculating the price index and to establish as a compensatory measure the gratuity of public transport. The alternative proposal was to limit the indexation during the crisis period to salaries, pensions and allowances that do not exceed twice the minimum wage.

As no common agreement could be reached, the Government preferred to conduct, in summer and autumn, bipartite discussions with trade unions and employers. In September 2010, the Government and unions finally reached an agreement on a system of automatic indexation of wages. The trade unions accepted that no indexation of salaries would occur before October 2011. In return, the Government pledged that it would not reduce by half the tax relief for travel expenses as provided in the package of savings measures and would maintain the automatic indexation until 2014 provided that the crisis does not worsen. On the other hand, negotiations between the Government and the employers' organisations (to compensate the latter for the increase in the social minimum wage foreseen for 1 January 2011) failed. The year 2010 clearly showed the fragility of Luxembourg's model of social dialogue in times of crisis.

Finally, in December 2010, an important law establishing measures such as a crisis contribution tax (0.8 per cent), a maximal tax level (39 per cent, previously set at 38 per cent) and an increase of the solidarity tax (from 2.5 to 4 per cent), was voted on by the Chamber of Deputies. All these measures were expected to raise €650 million for the central administration budget.

### *Economic laws*

Through the legislation relating to undertakings for collective investment, under Luxembourg law transposing Directive 2009/65/EC of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), the passport for management companies was introduced. Management companies established in a Member State will now be allowed to practice activities in other Member States for which they have received authorisation.

The Government also elaborated a partnership for the environment and climate change aiming at continuing the implementation of the Kyoto targets and at preparing a national plan for facing the consequences of climate change. This partnership focuses especially on a second national action plan aiming at

reducing greenhouse gas emissions. It will be developed through a consultative process with representatives of the state, employers, unions, municipalities and environmental nongovernmental organisations.

In November, a law reinforcing social assistance was promulgated. It foresees material aid (in kind or cash) and a right to assistance for any person residing in Luxembourg. The law does not cover foreign students, citizens of the EU during the three first months of their stay or during the time they seek employment, or any person who is subject to preventive detention or imprisonment, and so on.

In December 2010, to support consumption, the Government introduced a subsidy ('CAR-E premium over') for persons buying a car with low CO<sub>2</sub> emissions and who simultaneously take out of circulation cars that are more than ten years old.

### *Education*

In December 2010, the publication of the 4th PISA study (for International Student Assessment) of the OECD showed once again the weakness of the Luxembourgish school system. In the three areas evaluated (reading, mathematical competence and scientific culture), Luxembourg is located below the OECD average. These results confirm the existence of strong differences (in comparison to other OECD countries) in terms of performance between certain categories of students: between native and foreign students, between students of different socio-economic backgrounds, and between boys and girls.

### *Marriage and adoption*

In July 2010, the Government passed a controversial reform of the marriage and the adoption Act. The new Act allows same-sex marriage and confers the same rights and duties as heterosexual marriage. Concerning the recognition of same-sex marriages celebrated abroad, it is planned to apply the same rules as those governing the situation of mixed-sex couples married abroad. The major exception concerns the presumption of paternity that can be applied only to married heterosexual couples. This exception implies that in a homosexual couple, the married person cannot become the legal parent or the guardian of the child of her or his wife or husband conceived before their marriage. This norm follows the opinion expressed by the National Ethics Commission and the Ombudsman for Children's Rights. The Act recognises the right to simple adoption but not plenary adoption for homosexual couples. It means that members of a married couple can adopt a child individually but not together.

### *Drugs*

In December 2010, the new national report on the state of drug issues in Luxembourg was published. The data showed a general decrease in the use of illicit drugs in 2009, but a generalisation of the consumption of multiple drugs. The report highlights a general decline in mortality from overdose and a stabilisation of HIV and hepatitis C infections. It is estimated that since the opening of the medical house of supervised drug consumption, about 500 incidents of overdose were avoided. More than a quarter of them could have led to a fatal outcome without this medical and social assistance.

### *Religion*

After the scandal of sexual abuse in Ireland and Belgium, the Catholic Church of Luxembourg recognised in April 2010 that 15 cases of sexual abuse might also have been committed by clergymen in the country between 1950 and 1990.

## **Sources and further information**

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